



The Impact of Screening and Free Float Regulations Under the Foreign Shariah Securities List on Investors in Indonesia's Islamic Capital Market

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ABSTRACT

The rapid growth of Islamic mutual funds investing in foreign Shariah securities in Indonesia, which reached 37 products as of July 2026, 35 of which are denominated in US dollars, has not been matched by a uniform screening standard. This study analyzes the impact of Shariah screening regulation under the Foreign Shariah Securities List (DESLN) regime established by OJK Regulation No. 8 of 2025, together with the free float regulation of the Indonesia Stock Exchange (Rule No. I-A, as amended in 2026), on investors in the Islamic capital market. Employing a normative-juridical method with statutory, comparative, and conceptual approaches, supported by secondary data drawn from OJK statistics, index methodology documents, and fund fact sheets, the study finds that: (1) the DESLN regime prescribes only the types of screening criteria without numerical thresholds, thereby exposing investors to heterogeneous standards, with debt ratio ceilings of 30%, 33%, 33.33%, and 45% measured against different denominators; (2) the DESLN regime contains no free float or liquidity requirements, creating an asymmetry of protection relative to domestic shares; and (3) Shariah screening produces sectoral concentration, as reflected in a technology sector weight of 51.11% in the FTSE IdealRatings All-World Islamic Index compared with 33.40% in its parent index. The study proposes equivalence-based harmonization and a free float gate to strengthen investor protection in line with *hifz al-mal* and the prohibitions of *najsy* and *gharar*.

ABSTRAK

Pertumbuhan reksa dana syariah berbasis efek syariah luar negeri di Indonesia, yang mencapai 37 produk per Juli 2026 dengan 35 di antaranya berdenominasi dolar Amerika Serikat, belum diimbangi dengan standar screening yang seragam. Penelitian ini menganalisis dampak regulasi screening syariah dalam rezim Daftar Efek Syariah Luar Negeri (DESLN) menurut POJK Nomor 8 Tahun 2025, bersama regulasi free float Bursa Efek Indonesia (Peraturan I-A sebagaimana diubah pada 2026), terhadap investor pasar modal syariah. Dengan metode yuridis-normatif melalui pendekatan perundang-undangan, perbandingan, dan konseptual, yang didukung data sekunder dari statistik OJK, dokumen metodologi indeks, dan lembar fakta dana, penelitian ini menemukan bahwa: (1) rezim DESLN hanya mengatur jenis kriteria screening tanpa ambang angka, sehingga investor terpapar standar yang heterogen, yaitu batas rasio utang 30%, 33%,

33,33%, dan 45% dengan penyebut yang berbeda; (2) rezim DESLN tidak memuat persyaratan free float maupun likuiditas, sehingga terjadi asimetri perlindungan dibandingkan saham domestik; dan (3) screening syariah menghasilkan konsentrasi sektoral, tampak dari bobot sektor teknologi sebesar 51,11% pada FTSE IdealRatings All-World Islamic Index dibandingkan 33,40% pada indeks induknya. Penelitian ini mengusulkan harmonisasi berbasis ekuivalensi dan gerbang free float untuk memperkuat perlindungan investor sejalan dengan *hifz al-mal* serta larangan *najsy* dan *gharar*.

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INTRODUCTION

The Islamic mutual fund industry in Indonesia has continued to grow and has become one of the principal gateways through which the public invests in the capital market in accordance with Shariah principles. As of July 2026, there were 258 Islamic mutual funds with a total Net Asset Value (NAV) of IDR 86.13 trillion, or 13.20% of the total NAV of the national mutual fund industry (Otoritas Jasa Keuangan, 2026a). This figure extends the growth trend documented in previous studies, both in terms of the number of products and assets under management (Putriana, 2017; Bintasima, 2020; Andini, 2021; Rapini, Farida, & Putro, 2021). Recent studies further indicate that the performance of Islamic mutual funds is influenced by structural capital market policies, including the Islamic capital market development roadmap (Apriyadi & Cupian, 2024) and the characteristics of the Shariah stock indices that serve as their benchmarks (Azis, Darmalaksana, Suryaningsi, & Jaafar, 2024).

One of the most dynamic segments is that of Islamic mutual funds based on foreign Shariah securities (Reksa Dana Syariah Berbasis Efek Syariah Luar Negeri, hereafter RDS ELN). This product type was first expressly recognized under Financial Services Authority (OJK) Regulation (POJK) No. 19/POJK.04/2015 on the Issuance and Requirements of Islamic Mutual Funds, which was subsequently replaced by POJK No. 33/POJK.04/2019. The first product became effective on December 4, 2015, and as of July 2026, 37 RDS ELN products remained outstanding, 35 of which were denominated in US dollars (Otoritas Jasa Keuangan, 2026a). An RDS ELN is required to invest at least 51% of its NAV in foreign Shariah securities included in a Shariah Securities List issued by a Shariah Securities List Issuer (Pihak Penerbit Daftar Efek Syariah, PPDES) (Otoritas Jasa Keuangan, 2019). Consequently, the Shariah compliance status of investors' portfolios depends heavily on the quality of the Foreign Shariah Securities List (Daftar Efek Syariah Luar Negeri, DESLN), which, since 2025, has been governed by POJK No. 8 of 2025.

The first problem lies in the heterogeneity of global Shariah screening methodologies. Derigs and Marzban (2008) demonstrated early on that applying different index criteria to the same stock universe yields significantly different, and even contradictory, lists of Shariah-compliant stocks. Similar findings have been confirmed by Zakri, Razak, and Tahir (2018); Ayedh, Shaharuddin, and Kamaruddin (2019); Rohimah, Nurhayati, and Ihwanudin (2023); Adeyemi and Tekdoğan (2024); and Sawari, Sitiris, and Zaim (2024). In the Indonesian context, comparative studies have also been conducted by Ramadani and Aziz (2018), Huda and Suseno (2023), Sabila (2024), and Maesarach, Jamilah, Isfandayani, Fahmi, and Amin (2025). Several scholars have proposed harmonization (Yildirim & Ilhan, 2018; Abu Bakar, Ramli, Omar, & Hamzah, 2023), while Azmi, Non, and Ab Aziz (2017) highlight the limited disclosure of issuer information that complicates the screening process. More recent developments have even encouraged the integration of environmental, social, and governance (ESG) criteria into Shariah screening (Satybaldy, Nazarov, Johansen, & Prakoso, 2025).

The second problem concerns market quality, particularly free float. Throughout 2026, the Indonesia Stock Exchange (IDX) tightened its free float requirements through an amendment to Rule No. I-A (Bursa Efek Indonesia, 2026a), an explanatory circular letter (Bursa Efek Indonesia, 2026b), a special notation for issuers that have not yet met the free float requirement (Bursa Efek Indonesia, 2026c), and the designation of highly concentrated share ownership jointly with the Indonesian Central Securities Depository (KSEI) (Bursa Efek Indonesia & Kustodian Sentral Efek Indonesia, 2026). These reforms coincided with global index providers'

evaluation of the Indonesian market, which in June 2026 maintained Indonesia's status as an emerging market (Otoritas Jasa Keuangan, 2026b). Ironically, the strict free float discipline imposed on domestic shares has no counterpart in the DESLN regime, even though RDS ELN investors belong to the same investor base.

Previous studies have generally focused on comparing screening methodologies or on the performance of Islamic mutual funds (Fitriyanto, Ardiansyah, Wibowo, & Satibi, 2021; Sholikhah, Falihaturohmah, & Pebruary, 2023; Kholid, Rosmanidar, & Hardi, 2025). To the best of the authors' knowledge, no study has yet analyzed the interplay between the DESLN regime under POJK No. 8 of 2025 and free float regulation from the perspective of investor protection. This study seeks to fill that gap. Its objectives are: (1) to analyze the regulatory architecture of DESLN screening and the position of free float norms within it; (2) to identify the impact of both regulations on the various segments of Islamic capital market investors; and (3) to formulate a direction for regulatory reconstruction that strengthens investor protection in accordance with Shariah principles.

RESEARCH METHOD

This study is normative-juridical legal research employing a qualitative approach. Three approaches are used concurrently. The statute approach is applied to POJK No. 8 of 2025, POJK No. 33/POJK.04/2019, POJK No. 15/POJK.04/2015, POJK No. 61/POJK.04/2016, IDX Rule No. I-A together with the related circular letters and joint decree, and the fatwas of the National Sharia Council–Indonesian Ulema Council (DSN-MUI) on the capital market. The comparative approach is applied to the methodology documents of the MSCI Islamic Index Series (MSCI, 2025), the FTSE IdealRatings Islamic Index Series (FTSE Russell, 2026a), the S&P Shariah Indices (S&P Dow Jones Indices, 2026a), and the Dow Jones Islamic Market Indices (S&P Dow Jones Indices, 2026b). The conceptual approach is used to interpret the findings within the framework of *maqashid al-syariah* (the higher objectives of Islamic law), particularly *hifz al-mal* (the protection of wealth), as well as the prohibitions of *gharar* (excessive uncertainty) and *najsy* (price manipulation through fictitious bidding).

Primary legal materials consist of statutory regulations and fatwas; secondary legal materials consist of journal articles and research reports; and supporting materials consist of empirical data. The empirical data were obtained from the OJK Islamic Mutual Fund Statistics as of July 2026, which list 258 products, from RDS ELN fund fact sheets, and from FTSE Russell index factsheets as of July 31, 2026. Data were collected through a documentary study of sources accessed up to September 2026. The data were analyzed in a descriptive-analytical and prescriptive manner through five stages: norm inventory, systematization, cross-standard comparison, interpretation (grammatical, systematic, and teleological), and synthesis into an impact matrix. The validity of the findings was ensured through source triangulation across regulatory texts, index methodology documents, and statistical data.

RESULT AND DISCUSSION

The Regulatory Architecture of DESLN Screening and the Position of Free Float Norms

POJK No. 8 of 2025 replaces POJK No. 35/POJK.04/2017 and, for the first time, regulates the DESLN in a dedicated chapter. Article 12(1) affirms that a DESLN may be issued only by a PPDES. This point is important because global index providers such as MSCI, FTSE Russell, and S&P Dow Jones Indices are not DESLN issuers but rather reference parties on which a PPDES may rely. Article 13 governs the content of the DESLN, which may include Shariah-compliant shares listed on foreign exchanges, sukuk, Shariah commercial papers, foreign Shariah-based mutual funds, and other foreign Shariah securities. Article 13(2) prohibits the inclusion of securities already contained in the Shariah Securities List (*Daftar Efek Syariah*, DES) issued by OJK (Otoritas Jasa Keuangan, 2025).

Article 14 provides a PPDES with two selection mechanisms, as illustrated in Figure 1. Under the reference mechanism (Article 14(a) in conjunction with Article 15), a PPDES need only ensure that the reference party has a Shariah supervisory board and applies, *at a minimum*, selection criteria consisting of business activity screening, an interest-based debt ratio, and a non-halal income ratio. Under the self-selection mechanism (Article 14(b) in conjunction with Article 16), the shares included must be issued by Shariah institutions and/or meet the criteria of Article 2(b), namely the domestic DES criteria. These criteria encompass a prohibition on business activities and transactions contrary to Shariah principles, an interest-based debt-to-total-assets ratio that is gradually reduced from 45% to 33% over ten years, and a non-halal income ratio of no more than 5%. Both mechanisms culminate in a review by the Shariah Supervisory Board (*Dewan Pengawas Syariah*, DPS) of the PPDES under Article 18 and in the standard operating procedures stipulated in Article 23.

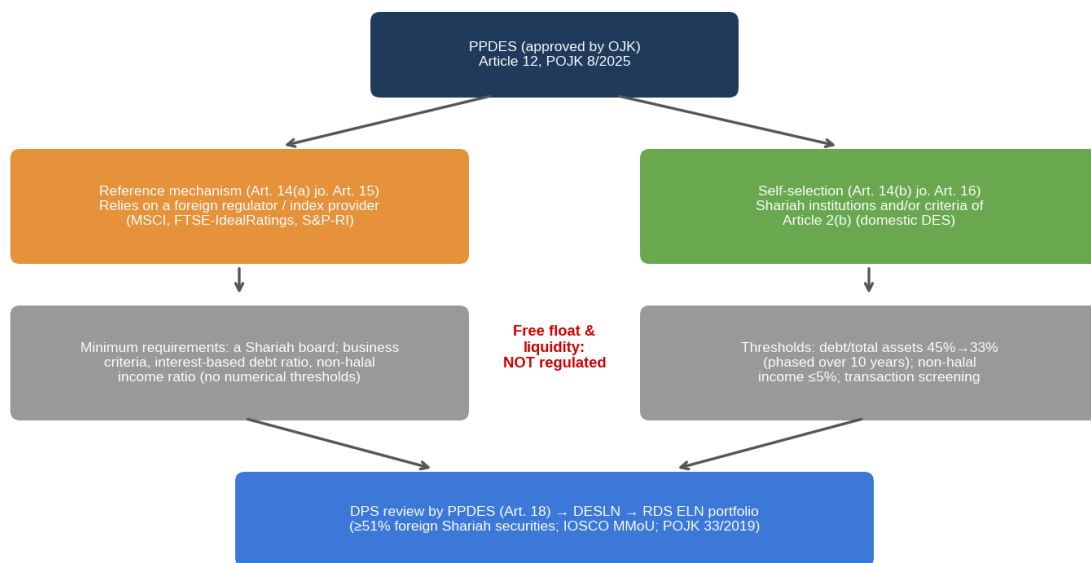


Figure 1. DESLN Compilation Flow under POJK No. 8 of 2025

Source: Compiled by the authors from POJK No. 8 of 2025 and POJK No. 33/POJK.04/2019.

From the investor's perspective, the protection afforded to RDS ELN unitholders consists of several regulatory layers, as summarized in Table 1. The key finding is that free float norms exist only at the domestic exchange layer. On a grammatical reading, the definition of free float shares in Rule No. I-A is tied to shares that "have been listed on the Exchange," namely the IDX (Bursa Efek Indonesia, 2026a). Accordingly, the norm cannot be applied to shares listed on foreign exchanges. Meanwhile, neither POJK No. 8 of 2025 nor POJK No. 33/POJK.04/2019 contains any provisions on free float, liquidity, or ownership concentration for securities included in the DESLN

Table 1. Regulatory Layers of Investor Protection for RDS ELN

Layer	Legal Basis	Key Substance	Free Float Norm
Mutual fund product	POJK 33/POJK.04/2019	At least 51% of NAV in foreign Shariah securities; issuers from IOSCO member jurisdictions that are full signatories to the MMoU; minimum initial investment of USD 10,000; risk disclosure obligations	None

Layer	Legal Basis	Key Substance	Free Float Norm
Securities list	POJK 8 of 2025, Articles 12–18 and 23	Two selection mechanisms; minimum requirements for reference parties; DPS review; compilation SOP	None
Shariah principles	POJK 15/POJK.04/2015; DSN-MUI fatwas	Shariah principles in the capital market based on DSN-MUI fatwas	Indirect (prohibition of <i>najsy</i> and <i>ihtikar</i>)
Investment Manager	POJK 61/POJK.04/2016	Application of Shariah principles in investment management	None
Domestic exchange	IDX Rule I-A (Kep-00045/BEI/03-2026); SE-00009/BEI/07-2026; IDX–KSEI Joint Decree 2026	Free float of 15–25% at listing; minimum of 15% for continued listing; special notation; designation of concentrated ownership	Yes, only for IDX-listed shares

Source: Compiled by the authors from the relevant regulations.

Heterogeneity of Screening Standards in DESLN Practice

Because Article 15 regulates only the types of criteria, the threshold levels and the denominators of the ratios are left entirely to the reference party's methodology. The comparison in Table 2 shows that a single legal framework accommodates at least four different standards. MSCI measures the ratio against total assets with a threshold of 33.33% (MSCI, 2025). FTSE IdealRatings uses the 24-month average daily market capitalization with a threshold of 33%, switching to total assets when the average market capitalization is lower than total assets (FTSE Russell, 2026a). The S&P Shariah Indices and the Dow Jones Islamic Market Indices, both screened by Ratings Intelligence Partners, apply a 30% threshold against the 36-month average market value of equity (S&P Dow Jones Indices, 2026a, 2026b).

Table 2. Comparison of Screening Standards That May Serve as the Basis for the DESLN

Aspect	Domestic Self-Selection	DES/MSCI	FTSE IdealRatings	S&P/DJIM (RI)
Debt ratio	≤45%, declining to 33% (phased over 10 years)	<33.33%	<33%	<30%
Denominator	Total assets	Total assets (M-Series: 36-month market cap.)	24-month market average cap. (fallback: assets)	36-month average market value of equity
Non-halal income	≤5%	<5%	<5%	<5%
Review frequency	Semiannual (June, December)	Quarterly	Quarterly	Monthly
Buffer mechanism	None	None	None	2-point tolerance, maximum of 3 periods
Shariah authority	DSN-MUI/OJK	MSCI Shariah advisory committee	IdealRatings	Ratings Intelligence Shariah Supervisory Board

Source: Compiled by the authors from POJK No. 8 of 2025; MSCI (2025); FTSE Russell (2026a); S&P Dow Jones Indices (2026a, 2026b).

This heterogeneity creates three problems for investors. First, it opens the door to *index shopping*, that is, the selection of the most lenient reference party for a given portfolio. Second, it gives rise to a paradox: during the transition period, the self-selection route, which applies the 45% domestic standard, is in fact more lenient than all three global index providers. Foreign shares rejected by MSCI, FTSE, and S&P may still qualify if the PPDES screens them itself. Third, market capitalization-based ratios are procyclical. When share prices fall sharply, the denominator shrinks and the debt ratio rises, so that shares may be removed from the Shariah list precisely when prices are under pressure. As a result, mutual funds may be compelled to sell at unfavorable prices. This finding is consistent with the conclusion of Derigs and Marzban (2008) that there is, as yet, no universal understanding of how to translate descriptive Shariah rules into testable investment guidelines, as well as with the observation of Ayedh et al. (2019) regarding the need to re-examine the Shariah compliance of screening methodologies.

A further issue concerns fatwa authority. POJK No. 15/POJK.04/2015 establishes DSN-MUI fatwas as the basis of Shariah principles in the capital market, including Fatwa No. 40/DSN-MUI/X/2003 and Fatwa No. 135/DSN-MUI/V/2020 on Shares. By contrast, the Shariah boards of reference parties are not bound by DSN-MUI fatwas, and their levels of transparency also differ. Ratings Intelligence publishes the composition of its board, which is chaired by Dr. Muhammad Ali El-Gari together with Dr. Nazih Hammad and Dr. Mohammad Amin Ali Qattan (Ratings Intelligence, n.d.). The MSCI methodology, in contrast, refers only to the approval of its Shariah advisory committee without disclosing the names of its members (MSCI, 2025). Although Article 18 of POJK No. 8 of 2025 requires a DPS review, it does not establish benchmarks for that review. Furthermore, the minimum standards in Article 15 do not include transaction screening, whereas the domestic criteria in Article 2(b)(2) do. The disclosure challenges identified by Azmi et al. (2017) further increase the burden on the PPDES's DPS, which must assess issuers across jurisdictions.

Empirical Profile of RDS ELN and the Characteristics of Screened Portfolios

Figure 2 shows the development of RDS ELN products outstanding as of July 2026 by year of effectiveness. Growth occurred in two waves: an initial wave in 2015–2016 following the issuance of POJK No. 19/POJK.04/2015, and a second wave from 2019 onward following POJK No. 33/POJK.04/2019. The year 2025 recorded the largest number of new products, at six. Overall, RDS ELN account for approximately 14.3% of the 258 outstanding Islamic mutual funds (Otoritas Jasa Keuangan, 2026a).

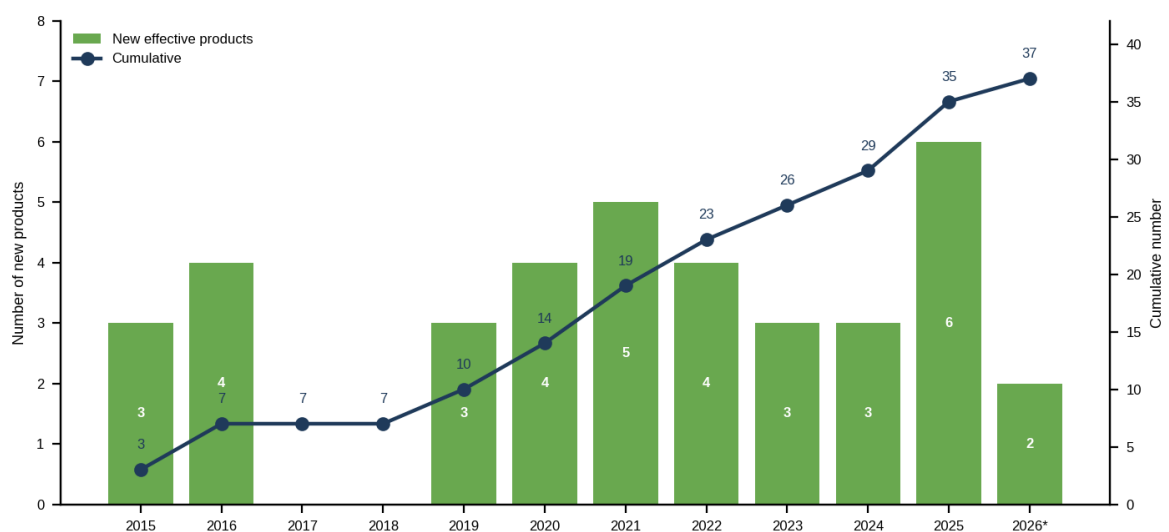


Figure 2. Number of Outstanding RDS ELN as of July 2026 by Year of Effectiveness

Source: Compiled by the authors from the Islamic Mutual Fund Statistics, July 2026 (Otoritas Jasa Keuangan, 2026a). *Data up to July 2026.

The product list also shows that Indonesian investors are simultaneously exposed to a range of screening standards. Several products explicitly reference indices from the S&P Dow Jones Indices family, for example, products based on the Dow Jones Islamic Market Global Technology Titans 50 and the S&P 500 Information Technology Syariah. Other products reference the FTSE Russell and IdealRatings family, such as products based on the Russell IdealRatings Top 200 Islamic Technology Index. Principal Islamic ASEAN Equity Syariah (USD) uses the MSCI AC ASEAN Islamic Index as its benchmark, with assets under management of USD 2.27 million and a minimum initial investment of USD 10,000 (Principal Asset Management, 2026). Of the 37 products, at least six are explicitly technology-themed, one is healthcare-themed, and several are concentrated in specific regions such as Greater China, India, and Asia Pacific.

This thematic tendency is not coincidental but rather a structural consequence of Shariah screening. Table 3 compares the FTSE IdealRatings All-World Islamic Index with its parent index as of July 31, 2026. Screening retains 2,294 of the 4,265 constituents. The technology sector weight rises to 51.11%, whereas the financial sector almost disappears, with a weight of only 0.24%. In the emerging markets variant, a single stock, Taiwan Semiconductor Manufacturing, carries a weight of 30.40% (FTSE Russell, 2026b). Over the observation period, the Islamic index recorded higher returns, but also higher volatility.

Table 3. Characteristics of Screened Portfolios: The FTSE IdealRatings All-World Islamic Index and Its Parent Index

Indicator (as of July 31, 2026)	FTSE IdealRatings All-World Islamic	FTSE All-World
Number of constituents	2,294	4,265
Technology sector weight	51.11%	33.40%
Healthcare sector weight	10.73%	7.87%
Financial sector weight	0.24%	15.72%
12-month return	27.3%	22.5%
5-year cumulative return	76.8%	71.1%
1-year volatility	13.6%	11.3%
5-year volatility	16.4%	14.9%

Source: FTSE Russell (2026b).

Impact of Free Float Regulation on Investors

Domestic free float regulation directly affects domestic Shariah stock investors and Islamic equity mutual fund investors, as well as the domestic portion of RDS ELN, which is capped at 49% of NAV. Its most fundamental impact is improved liquidity and fairer price formation. The requirement of a minimum free float of 15% for continued listing, with a transition period until March 31, 2027 or 2028 for issuers with a market capitalization of at least IDR 5 trillion and until March 31, 2029 for issuers with a smaller market capitalization, increases the proportion of shares genuinely held by the public (Bursa Efek Indonesia, 2026a). Thinly floated shares with concentrated ownership are vulnerable to practices prohibited by DSN-MUI Fatwa No. 80/DSN-MUI/III/2011, including *najsy* (fictitious bids or offers) and *ihtikar* (hoarding). Adequate free float is therefore a structural prerequisite for these fatwa prohibitions to be effective in the market. The considerations underlying the IDX–KSEI Joint Decree on highly concentrated ownership affirm the same logic, namely that ownership

concentration may limit the availability of shares, impair liquidity, and increase the risk of price volatility (Bursa Efek Indonesia & Kustodian Sentral Efek Indonesia, 2026).

In the short term, the transition period carries its own risks. Issuers that have not yet met the threshold must increase their public float through follow-on public offerings, private placements without preemptive rights (non-HMETD), or share divestments by controlling shareholders. A large supply of shares may depress prices, while the issuance of new shares without preemptive rights may dilute the holdings of existing investors. The special notation "P," which is monitored quarterly, serves as a risk signal that retail investors can easily interpret (Bursa Efek Indonesia, 2026c). However, the notation may also trigger stigma and sell-offs by Investment Managers whose internal policies avoid notated shares. It should be emphasized that free float does not determine the Shariah compliance of a share. Shariah status remains determined by the criteria set out in Article 2 of POJK No. 8 of 2025. A share may be fully Shariah-compliant yet have a low free float; investors therefore need to assess the two filters separately.

An often-overlooked indirect impact relates to global capital flows. Global Islamic indices are weighted by free float-adjusted market capitalization (MSCI, 2025; FTSE Russell, 2026a; S&P Dow Jones Indices, 2026b). Consequently, an increase in the free float of Indonesian Shariah-compliant shares mechanically raises their weight in global Islamic indices and may attract passive inflows from international Islamic products. The sustainability of the free float reform is therefore directly linked to global demand for Indonesian Shariah-compliant shares, as implied by global index providers' recognition of Indonesia's capital market reform agenda (Otoritas Jasa Keuangan, 2026b).

Impact of DESLN Screening on Investors

The first impact is heterogeneous assurance of Shariah compliance. Two investors who both purchase a "foreign Islamic mutual fund" may hold portfolios with different degrees of Shariah prudence without being aware of it. On the positive side, Article 15(a) requires disclosure of the reference party's name, so this information is available to investors who examine the prospectus. This requirement is consistent with the finding of Abu Bakar et al. (2023) that Investment Managers tend to select screening methods that match their investors' preferences, which makes transparency in the choice of method essential.

The second impact is the risk of status changes and portfolio costs. Differences in review cycles result in different levels of portfolio turnover. The monthly cycle of S&P/DJIM is more responsive but may increase transaction costs. A buffer mechanism of two percentage points, limited to three consecutive periods, helps to dampen such turnover (S&P Dow Jones Indices, 2026a). Because POJK No. 8 of 2025 does not set a deadline for updating the DESLN, portfolios may also temporarily continue to hold shares that have already been removed from the reference index. The obligation to purify non-halal income slightly reduces returns but, in turn, safeguards the Shariah substance of the investment.

The third impact is sector bias and concentration risk, as shown in Table 3. RDS ELN investors face higher volatility and strong correlations among products with similar themes. Purchasing several RDS ELN products at once does not necessarily achieve effective diversification if all of them are concentrated in large US technology stocks. On the other hand, the bias toward low-leverage companies may prove advantageous during a credit crisis.

The fourth impact is exchange rate risk and barriers to access. Almost all RDS ELN are denominated in US dollars, so investors bear exchange rate risk in addition to price risk. Article 34 of POJK No. 33/POJK.04/2019 requires Investment Managers to ensure that investors understand exchange rate risk, high NAV volatility, and the risk of loss of principal, while Article 35 sets a minimum initial investment of USD 10,000 (Otoritas Jasa Keuangan, 2019). These provisions protect investors from products unsuited to their risk profiles but, at the same time, restrict access for small retail investors.

The fifth impact stems from the absence of free float norms, and its effects vary by product type. In index-based RDS ELN, free float discipline is implicitly inherited from index methodologies that are free float-weighted and apply investability screens. In actively managed RDS ELN that rely on self-selection or non-index references, there is no free float or liquidity filter. Under normal conditions, this gap may go unnoticed. However, in the event of large redemptions, Investment Managers may struggle to sell illiquid shares without depressing prices, and the resulting losses are borne by all unitholders. This constitutes a liquidity mismatch that the DESLN regime has not anticipated.

The sixth impact is an asymmetry of protection. The domestic portion of RDS ELN is protected by the OJK-issued DES and IDX free float discipline, whereas the foreign portion, which accounts for at least 51%, is protected by the rules of the home exchange, the IOSCO MMoU requirement, and the quality of the reference party's methodology. This asymmetry does not mean that investors are unprotected; rather, it indicates that the quality of protection depends heavily on the choices made by the PPDES and the Investment Manager. The burden of due diligence thus shifts to investors.

Maqashid Analysis and Impact Matrix

From the perspective of *maqashid al-syariah*, both regulations are closely related to *hifz al-mal* (the protection of wealth). Free float regulation protects investors' wealth through fair price formation and the reduction of *gharar* in pricing. Screening regulation safeguards the permissibility (halal status) of wealth by filtering business activities and financial ratios. DSN-MUI has also affirmed, through Fatwa No. 157 of 2024 on the Application of Shariah Principles in the Protection of Capital Market Investors' Assets, that the protection of investors' assets forms part of the application of Shariah principles in the capital market (Dewan Syariah Nasional-Majelis Ulama Indonesia, 2024). Under the current DESLN regime, the halal dimension is regulated only minimally, while the market quality dimension is not regulated at all. The impact of both regulations on each investor segment is summarized in Table 4.

Table 4. Impact Matrix of Free Float and DESLN Screening Regulations by Investor Segment

Investor Segment	Impact of Domestic Free Float Regulation	Impact of DESLN Screening
Domestic Shariah stock retail investors	Improved liquidity; risk of price pressure and dilution during the transition; delisting risk for issuers that fail to comply	Indirect
Domestic Islamic equity mutual fund investors	More reliable NAV; potential forced sales of shares bearing a special notation	Indirect
RDS ELN investors	Only on the domestic portion (maximum of 49% of NAV)	Heterogeneous Shariah standards; exchange rate risk; sector bias; liquidity risk in actively managed products
Islamic institutional investors	Opportunities to acquire shares divested by controlling shareholders	Need for due diligence on reference parties and their methodologies
Global Islamic investors	Potential increase in Indonesia's weight in global Islamic indices	Not relevant

Source: Authors' analysis.

Direction of Regulatory Reconstruction

Based on the foregoing findings, the authors propose a reconstruction grounded in the principle of equivalence rather than uniformity. Differences in thresholds across index providers are legitimate products of *ijtihad*; what must therefore be ensured is that reference standards are not substantially more lenient than the DSN-MUI and OJK standards. This reconstruction comprises four layers. The first layer is the harmonization of

minimum thresholds through a refinement of Article 15, including the recognition of market capitalization-based ratios insofar as they are declared equivalent in a written DPS assessment. The self-selection paradox is resolved by applying the stricter of the domestic standard and the home-country standard. The second layer is clarity of Shariah benchmarks through a mandatory gap analysis between the reference party's methodology and DSN-MUI fatwas, together with disclosure of the identities of the reference party's Shariah board members. The third layer is temporal synchronization, whereby the DESLN is updated at least as frequently as the reference party's list, accompanied by a reasonable divestment period and a purification obligation. The fourth layer is a free float and liquidity gate.

The free float gate may be formulated as follows: foreign Shariah-compliant shares included in the DESLN must (a) be constituents of an index weighted by free float-adjusted market capitalization, or (b) have a free float of at least 15% of total listed shares, or the level required by the home exchange if higher, and meet the liquidity criteria set by OJK. This formulation does not apply Rule No. I-A extraterritorially. What it regulates is the eligibility of shares for inclusion in the portfolios of Indonesian Islamic mutual funds, a matter that falls entirely within OJK's authority because the objects of regulation are domestic PPDES and Investment Managers. This reconstruction naturally entails costs, including a narrower investment universe, a potential increase in tracking error, and a heavier compliance burden that may be passed on to investors through management fees. The distinction between the inheritance route and the direct-test route is intended to minimize these costs.

CONCLUSION

This study concludes that domestic free float regulation and DESLN screening affect Islamic capital market investors through different channels. Free float regulation strengthens market quality, namely liquidity, price fairness, and attractiveness to global Islamic funds, in line with the objectives of DSN-MUI Fatwa No. 80/DSN-MUI/III/2011, although it entails price pressure and dilution risk during the transition period. The DESLN regime under POJK No. 8 of 2025 provides flexibility and access to global markets but is minimalist and procedural in nature: Article 15 regulates only the types of criteria without specifying threshold levels, the DPS review under Article 18 lacks benchmarks, and there are no free float or liquidity norms. Consequently, RDS ELN investors face heterogeneous assurance of Shariah compliance, sector bias and concentration, exchange rate risk, and liquidity mismatch risk in actively managed products. The Shariah label on foreign products does not yet guarantee a uniform standard; investors therefore need to assess the halal filter and the market quality filter simultaneously.

Nevertheless, this study has several limitations. The analysis is normative-judicial and relies on secondary data; it therefore does not quantitatively measure the impact of differing screening standards on the performance, portfolio turnover, and liquidity of RDS ELN. Product-level NAV data for RDS ELN are also not yet available in OJK's aggregate statistics. Future research should broaden the scope of inquiry through empirical testing of actual RDS ELN portfolios, simulations of the impact of a free float gate on the investment universe, and interviews with PPDES, DPS members, and Investment Managers. In practical terms, OJK is advised to refine Articles 15, 16, 18, and 23 of POJK No. 8 of 2025 or to issue an implementing circular letter, while investors are advised to examine the reference party, update frequency, purification policy, sector concentration, and liquidity profile before investing.

Author's Contributions

Saifudien Djazuli: Conceptualization, Methodology, Investigation, Data curation, Formal analysis, Writing original draft, review & editing.

Roisul Adib: Research method, Validation, Writing, review & editing, Formal analysis & editing.

Otisia Arinindyah: Data curation, Formal analysis, Writing –review & editing.

All authors have read and approved the final version of the manuscript

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Declarations of Ethical Considerations

Participation in the study was voluntary, and informed consent was obtained from all participants prior to the interviews. Participants' identities were anonymized using respondent codes to ensure confidentiality.

Use of artificial intelligence (AI)

The authors declare that no generative artificial intelligence (AI) tools were used in the preparation, analysis, or writing of this manuscript.

Conflict of Interest

The authors declare no conflicts of interest.

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